

**CAVERNA INDEPENDENT SCHOOL DISTRICT**

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**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS  
For the Year Ended June 30, 2012**



CAVERNA INDEPENDENT SCHOOL DISTRICT

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CAVERNA INDEPENDENT SCHOOL DISTRICT

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### INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Caverna Independent School District  
Horse Cave-Cave City, Kentucky 42127

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Caverna Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*; issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for the School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Caverna Independent School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012, on our consideration of the Caverna Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caverna Independent School District's financial statements as a whole. The combining and individual nonmajor fund financial statements, and the Agency fund financial information on pages 39-43, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, the Agency fund financial information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants

Glasgow, Kentucky

October 5, 2012

Caverna Independent Schools, Horse Cave and Cave City, Kentucky  
Management's Discussion and Analysis  
Year Ended June 30, 2012

Although state funding has decreased considerably, the financial position of the Caverna Board of Education remains constant and stable. The cash balance increased 7% last year due to financing a bus through KISTA instead of purchasing it along with the state allowing us to spend capital outlay on general fund expenses again last year. I anticipate a drop in cash this year due to the large cut in SEEK funds for 2012-2013. ADA decreased to 648 in 2011-2012 from 660 in 2010-2011. The largest problem with ADA is at the High School with it running at 92% while the Elementary was 95% and the Middle School at 94%. We did not see an expected increase in high school attendance from moving the alternative school to our building however, the attendance at the high school has increased for the first part of 2012-2013. High school enrollment has dropped over the last 3 years while the elementary has increased at primary grades.

Caverna Board of Education continues to make a concerted effort to keep our staffing in line with the state mandated figures. This is the only way we can remain financially valid. The elementary is within state guidelines, while the middle school is over by 1 teacher. The high school Computer Skills and Applications classes has worked well and the class has taken over responsibility for the television station which should result in improved programming. One teacher at both the high school and middle schools was funded last year by Edujobs funds, we have maintained those positions this year with general funds, but it is likely they will need to be eliminated next year unless new funding can be found. We added a Kindergarten aide in 2013 to the elementary due to the large class.

We continue to offer all day preschool and have 3 preschool classrooms for 2012-2013 with a current enrollment of 60 students. This is down from 4 which we have had for several years. While this program is only funded for half days by the state, our aim is early intervention. It is expected that early intervention for at risk students will help cut costs in the long run and give our children a better opportunity to succeed. However, preschool has been cut each year by the state. The At Risk amount per student went from \$3,047 to \$2,863, while Severe/Multiple Disabilities went from \$5,789 last year to \$5,440. These cuts may force us to go back to half days in the future.

The second year of the School Improvement Grant (SIG) is complete. The grant was for \$498,623 for 2011-2012 school year. Most of these funds were spent on the Math Intervention teacher, a Reading Intervention teacher, a School Administrative Manager, the Curriculum Specialist and lots of Professional Development for the staff. The SAM and Specialist were recommendations of the grant. The SAM, Stacey Bradbury, worked with the facilities and classified staff and other duties to free up the Principal to focus on academics. Stacey has moved to the central office as Dr. Dick's secretary for 2012-2013 and Kathy Quire has been hired as the new SAM. They also purchased computers, IPADS, and various software programs. Most teachers attended Professional Learning Community Meetings 2-3 times each week. The SIG grant is \$505,000 for 2012-2013. The grants ends this year and it is expected all the positions will have to be eliminated unless new funds are found to support them.

Test scores have not shown a significant improvement under the grant, however they have changed the focus to College and Career Readiness and we have 7 seniors already meeting this standard.

Our focus in facilities continues to be on new HVAC for all schools. Our current bonding capacity is \$3,630,000. We currently have two bonds one of which will be paid off on December 1, 2012. The average payments since the 2002 refinancing have been around \$125,000. The other bond which was for adding the middle school office and science lab along with new restrooms in all buildings and some sports complex work will remain with us until 2024 with payments running around \$130,000 per year. We have started the process of getting new HVAC at the High/Middle building. The cost will be around \$2,461,000 with \$2,291,000 from bonds which will replace the bond paid off on December 2012. With the current changes to the state funding and uncertain economy we are proceeding slowly.

Interfund transfers were made from the general fund to the technology fund for \$13,196. This amount is required to get the state matching portion of technology funds. Indirect costs were also transferred from Food Service to the General Fund for \$16,804.00. Indirect costs are the food services portion of utilities, building maintenance and other overhead.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The district uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: Governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. Caverna Board of Education currently has no fiduciary funds. The only proprietary fund is the food service operations. All other activities of the district are included in the governmental funds.

The governmental fund financial statements can be found on pages 10-17 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-36 of this report.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. Caverna's assets exceeded liabilities by \$3,618,919 as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture, and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital asset is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### Net Assets for the period ending June 30, 2012 and June 30, 2011

Net Assets had increased by \$158,090 over last year. This is due to an increase in cash at year end and a decrease in liabilities due to a bond almost being paid off. Unreserved Fund Balance has also decreased due to restricting funds for the purchase of bus and paying the staff paid by Edujobs funds last year. We also have restricted funds to cover any cuts the state has made. This has already proven to be needed to a large decrease in special education funding at the state level this year.

	June 30, 2012	June 30, 2011
Current Assets	\$ 1,670,825	\$ 1,472,923
Noncurrent Assets	4,089,494	4,153,067
Total Assets	<u>\$ 5,760,319</u>	<u>\$ 5,625,990</u>
Current Liabilities	413,329	\$ 395,032
Noncurrent Liabilities	1,728,071	1,770,129
Total Liabilities	<u>\$ 2,141,400</u>	<u>\$ 2,165,161</u>
Net Assets		
Investment in capital assets (net of debt)	\$ 1,687,523	\$ 2,409,139
Restricted	784,188	235,390
Unreserved Fund Balance	1,147,208	816,300
Total Net Assets	<u>\$ 3,618,919</u>	<u>\$ 3,460,829</u>

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2012 and June 30, 2011.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Revenues:		
Local revenue sources	\$ 2,033,804	\$ 1,961,080
State revenue sources	3,661,387	4,862,224
Federal revenues	1,529,034	1,732,155
Investments	11,442	10,413
Proceeds from Bonds	1,185,000	-
Other sources	55,716	38,848
	<u>\$ 8,476,383</u>	<u>\$ 8,604,720</u>
Expenses:		
Instruction	\$ 4,779,897	\$ 5,066,133
Student support services	234,550	225,878
Instructional support	476,887	513,396
District support	497,654	443,779
School administration	630,484	650,287
Business support	103,471	43,707
Plant operations	486,849	495,924
Student transportation	440,487	474,405
Facilities acquisition	-	83,090
Community support	93,198	100,110
Other	574,816	416,128
Total expenses	<u>8,318,293</u>	<u>8,512,837</u>
Excess (Deficit) of Revenues over Expenses	<u>\$ 158,090</u>	<u>\$ 91,883</u>

## COMPARISON OF PRIOR YEAR

2012 was a difficult year with cuts from the state constantly happening throughout the year. While the state claims to have not cut the base SEEK they continue to cut other funding. In 2013, they have cut the special education amount per student by over \$243 for Caverna. The Federal Stimulus Funds have also run out. Our foresight to keep our Edujobs for 2011-2012 funds had allowed us to keep three positions for 2011-2012, two of these positions have been maintained for 2012-2013.

Expenses remain up due to the School Improvement Grant at the high school. We also received the 21st Century Grant for an afterschool program at the elementary last year. This grant runs for three years at \$150,000 each year and is renewable at lesser amounts for two additional years.

It is hard to compare expenses for the two years since the state has added new on behalf expenses. We have for years had to add Health and Teachers Retirement paid on behalf of Caverna by the state. This year they also added technology. This results in \$1,295,636 being added to our expenses which do not require any cash outlay making the financial statements misleading to the average person. For example, Business Support increased by \$59,764 from last year due to the posting of Technology on behalf. Plant operations and Transportation expenses remain down due to the state allowing us to use Capital Outlay funds of \$67,500 for insurance and bus lease costs this year. This option may not be available to us this year since we have a construction project in process. A bus was purchased through a KISTA lease in the 2012. We do not plan to purchase a bus in 2013.

## **BUDGET COMPARISONS**

The total revenues for fiscal year 2011-2012 were \$8,499,243. Down by \$105,477 from last year due largely to the loss of federal stimulus funds. We have also expended all of the Edujobs funds available to us. We are currently showing a trend toward local revenues increasing while SEEK funds decrease. This year the Assessment in Hart County increased by \$28,000,000 due to both real and tangible property additions at Sister Shubert and T. Marzetti's. This causes our SEEK state funding to go down while our local taxes go up.

General Fund actual revenue was up in local sources compared to budgeted revenue but down in state. If you take out the on behalf in the general fund, we were very close to budgeted figures in Fund 1.

We have started the process of add new heating and cooling to the high/middle school this year. We have the bonding capacity to tackle this project but are proceeding cautiously due to the uncertain economy.

The majority of General Fund Revenue was derived from state revenue (SEEK) 48% down from 56% last year, with local funding making up 31% of revenue up from 22% last year. Instruction accounts for 75% of expenditures; Central Office and Administration makes up 11%; Maintenance is 7% and Transportation is 7%.

## **LONG - TERM DEBT**

The 2004 bond was refinanced in spring 2012 saving approximately \$57,000 over the remaining bond payments ending in 2024. Principal payments for the Middle School improvements bond were \$68,050 for 2011-2012. Interest on the this bond was \$46,140. The Elementary Renovation grant had principal payments of \$108,508 and interest of \$5,702.68. This bond will be paid off December 1, 2012 with a principal payment of \$111,780 and interest of \$1,956.15. We anticipate that we will replace this bond with a new one for HVAC at the high/middle school.

## **NET ASSETS**

Current governmental capital assets for 10-11 were \$4,153,067 and \$4,089,494 for 11-12. This decrease is due to inability to replace all computers as they age due to lack of funding and the fact that the cost of replacing computers has gone down. While not ideal we are determined to keep staff even at the expense of having older technology.

Current business capital assets, which is food service, totaled \$11,674 for 11-12 and were \$14,674 for 10-11. All these assets are equipment and technology.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**For the Year Ended June 30, 2012**

	Governmental Activities	Business Type Activities	Total
<b>Assets:</b>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 1,547,445	\$ 59,301	\$ 1,606,746
Inventory	-	15,600	15,600
Accounts receivable	18,832	-	18,832
Intergovernmental - state	84,749	-	84,749
Prepaid expenses and other assets	19,799	-	19,799
Total current assets	<u>1,670,825</u>	<u>74,901</u>	<u>1,745,726</u>
<u>Noncurrent Assets:</u>			
Capital assets	9,226,797	83,196	9,309,993
Less: accumulated depreciation	<u>(5,137,303)</u>	<u>(71,522)</u>	<u>(5,208,825)</u>
Total noncurrent assets	<u>4,089,494</u>	<u>11,674</u>	<u>4,101,168</u>
Total assets	<u>5,760,319</u>	<u>86,575</u>	<u>5,846,894</u>
<b>Liabilities:</b>			
<u>Current Liabilities:</u>			
Accounts payable	73,711	-	73,711
Checks issued in excess of cash	35,877	-	35,877
Deferred revenue	10,247	-	10,247
Current portion of bond obligations	244,000	-	244,000
Current portion of capital lease obligations	46,650	-	46,650
Interest payable	2,844	-	2,844
Total current liabilities	<u>413,329</u>	<u>-</u>	<u>413,329</u>
<u>Noncurrent Liabilities:</u>			
Noncurrent portion of bond obligations	1,230,000	-	1,230,000
Noncurrent portion of capital lease obligations	183,828	-	183,828
Noncurrent portion of accrued sick leave	314,243	-	314,243
Total noncurrent liabilities	<u>1,728,071</u>	<u>-</u>	<u>1,728,071</u>
Total liabilities	<u>2,141,400</u>	<u>-</u>	<u>2,141,400</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,687,523	11,674	1,699,197
Restricted for:			
Capital projects	30,572	-	30,572
Debt service	139,373	-	139,373
Other purposes (nonexpendable)	614,243	-	614,243
Unrestricted:	<u>1,147,208</u>	<u>74,901</u>	<u>1,222,109</u>
Total net assets	<u>\$ 3,618,919</u>	<u>\$ 86,575</u>	<u>\$ 3,705,494</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2012**

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities	Total
			Operating Grants and Contributions	Capital Grants and Contributions			
<b>Governmental Activities:</b>							
Instruction	\$ 4,779,897	\$ -	\$ 2,042,409	\$ -	\$ (2,737,488)	\$ -	\$ (2,737,488)
Support Services							
Student	234,550	-	-	-	(234,550)	-	(234,550)
Instructional staff	476,887	-	-	-	(476,887)	-	(476,887)
District administrative	497,654	-	-	-	(497,654)	-	(497,654)
School administrative	630,484	-	-	-	(630,484)	-	(630,484)
Business	103,471	-	-	-	(103,471)	-	(103,471)
Plant operations and maintenance	486,849	-	-	-	(486,849)	-	(486,849)
Student Transportation	440,487	-	-	-	(440,487)	-	(440,487)
Facilities acquisition and construction	-	-	-	-	-	-	-
Community service activities	93,198	-	-	-	(93,198)	-	(93,198)
Other	197,976	-	-	-	(197,976)	-	(197,976)
Interest on long-term debt	46,141	-	-	-	(46,141)	-	(46,141)
Depreciation (unallocated)	330,699	-	-	-	(330,699)	-	(330,699)
Total governmental activities	8,318,293	-	2,042,409	-	(6,275,884)	-	(6,275,884)
<b>Business-Type Activities</b>							
Food Service	586,356	70,600	524,134	-	-	8,378	8,378
Total business-type activities	586,356	70,600	524,134	-	-	8,378	8,378
Total primary government	\$ 8,904,649	\$ 70,600	\$ 2,566,543	\$ -	(6,275,884)	8,378	(6,267,506)
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes					1,798,023	-	1,798,023
Motor vehicle taxes					123,686	-	123,686
Other					112,095	-	112,095
Investments earnings					11,442	252	11,694
State and formula grants					4,333,012	-	4,333,012
Miscellaneous					55,716	958	56,674
Total general revenues					6,433,974	1,210	6,435,184
Change in net assets					158,090	9,588	167,678
Net assets - beginning					3,460,829	76,987	3,537,816
Net assets - ending					\$ 3,618,919	\$ 86,575	\$ 3,705,494

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2012**

	General Fund	Special Revenue	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets and resources:</b>					
Cash and cash equivalents	\$ 1,377,500	\$ -	\$ -	\$ 169,945	\$ 1,547,445
Inventories	-	-	-	-	-
Accounts receivable:					
Taxes-current	-	-	-	-	-
Taxes-delinquent	-	-	-	-	-
Accounts receivable	18,832	-	-	-	18,832
Intergovernmental-state	-	84,749	-	-	84,749
Intergovernmental - indirect federal	-	-	-	-	-
Due from other funds	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Interest receivable	-	-	-	-	-
Investments	-	-	-	-	-
<b>Total assets and resources</b>	<b>\$ 1,396,332</b>	<b>\$ 84,749</b>	<b>\$ -</b>	<b>\$ 169,945</b>	<b>\$ 1,651,026</b>
<b>Liabilities and fund balance:</b>					
Liabilities:					
Accounts payable	\$ 35,086	\$ 38,625	\$ -	\$ -	\$ 73,711
Checks issued in excess of cash	-	35,877	-	-	35,877
Accrued payroll and related expenses	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-
Deferred revenues	-	10,247	-	-	10,247
<b>Total liabilities</b>	<b>35,086</b>	<b>84,749</b>	<b>-</b>	<b>-</b>	<b>119,835</b>
<b>Fund balances:</b>					
Nonspendable:					
Restricted:					
Capital Projects	-	-	-	30,572	30,572
Debt Service	-	-	-	139,373	139,373
Committed:					
Accrued Sick Leave	53,108	-	-	-	53,108
Other Contingency	300,000	-	-	-	300,000
Assigned:	-	-	-	-	-
Unassigned:	1,008,138	-	-	-	1,008,138
<b>Total fund balances</b>	<b>1,361,246</b>	<b>-</b>	<b>-</b>	<b>169,945</b>	<b>1,531,191</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,396,332</b>	<b>\$ 84,749</b>	<b>\$ -</b>	<b>\$ 169,945</b>	<b>\$ 1,651,026</b>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2012**

Total fund balance per fund financial statements	\$ 1,531,191
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	4,089,494
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(2,001,766)</u>
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Net assets for governmental activities	<u><u>\$ 3,618,919</u></u>
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**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

	General Fund	Special Revenue	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 1,649,446	\$ -	\$ -	\$ 148,577	\$ 1,798,023
Motor vehicle	123,686	-	-	-	123,686
Other	112,095	-	-	-	112,095
Earnings on investments	11,442	-	-	-	11,442
Other local revenues	32,431	3,920	-	-	36,351
Intergovernmental-state	4,333,012	357,546	42,225	155,829	4,888,612
Intergovernmental-indirect federal	-	1,524,282	-	-	1,524,282
Intergovernmental-direct federal	4,752	-	-	-	4,752
Total revenues	<u>6,266,864</u>	<u>1,885,748</u>	<u>42,225</u>	<u>304,406</u>	<u>8,499,243</u>
Expenditures:					
Instruction	3,548,704	1,485,179	-	-	5,033,883
Support services:					
Student	197,502	37,048	-	-	234,550
Instructional staff	266,797	210,090	-	-	476,887
District administration	497,654	-	-	-	497,654
School administration	543,985	86,499	-	-	630,484
Business	103,471	-	-	-	103,471
Plant operations and maintenance	486,849	-	-	-	486,849
Student transportation	487,137	-	-	-	487,137
Facilities acquisition and construction	-	-	-	-	-
Community service activities	13,070	80,128	-	-	93,198
Other	-	-	1,464,654	-	1,464,654
Total expenditures	<u>6,145,169</u>	<u>1,898,944</u>	<u>1,464,654</u>	<u>-</u>	<u>9,508,767</u>
Excess (deficit) of revenues over expenditures	<u>121,695</u>	<u>(13,196)</u>	<u>(1,422,429)</u>	<u>304,406</u>	<u>(1,009,524)</u>
Other financing sources (uses):					
Proceeds from sale of bonds	-	-	1,185,000	-	1,185,000
Proceeds from sale of fixed assets	2,561	-	-	-	2,561
Operating transfers in	69,589	13,196	237,429	-	320,214
Operating transfers out	(29,576)	-	-	(273,834)	(303,410)
Total other financing sources (uses)	<u>42,574</u>	<u>13,196</u>	<u>1,422,429</u>	<u>(273,834)</u>	<u>1,204,365</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>164,269</u>	<u>-</u>	<u>-</u>	<u>30,572</u>	<u>194,841</u>
Fund balance, July 1, 2011	<u>1,196,977</u>	<u>-</u>	<u>-</u>	<u>139,373</u>	<u>1,336,350</u>
Fund balance, June 30, 2012	<u>\$ 1,361,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,945</u>	<u>\$ 1,531,191</u>

See independent auditor's report and  
accompanying notes to basic financial statements.



**CAVERNA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012**

Net changes in total fund balances per fund financial statements	\$ 194,841
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(53,036)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,311,582
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Bond proceeds	(1,185,000)
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(110,297)</u>
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Change in net assets of governmental activities	<u>\$ 158,090</u>
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**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	<u>Food Service Fund</u>	<u>Total</u>
<b>Assets</b>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 59,301	\$ 59,301
Inventory	<u>15,600</u>	<u>15,600</u>
Total current assets	<u>74,901</u>	<u>74,901</u>
<u>Noncurrent Assets</u>		
Capital assets	83,196	83,196
Less: accumulated depreciation	<u>(71,522)</u>	<u>(71,522)</u>
Total noncurrent assets	<u>11,674</u>	<u>11,674</u>
Total assets	<u>\$ 86,575</u>	<u>\$ 86,575</u>
 Total liabilities	 <u>\$ -</u>	 <u>\$ -</u>
<b>Net Assets</b>		
Invested in capital assets net of related debt	11,674	11,674
Unrestricted	<u>74,901</u>	<u>74,901</u>
Total net assets	<u>\$ 86,575</u>	<u>\$ 86,575</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	<u>Food Service Fund</u>	<u>Totals</u>
Operating Revenues:		
Lunchroom sales	\$ 70,600	\$ 70,600
Total operating revenues	<u>70,600</u>	<u>70,600</u>
Operating Expenses:		
Salaries and wages	295,113	295,113
Material and supplies	261,533	261,533
Depreciation	2,437	2,437
Other operating expenses	<u>10,469</u>	<u>10,469</u>
Total operating expenses	<u>569,552</u>	<u>569,552</u>
Operating loss	<u>(498,952)</u>	<u>(498,952)</u>
Non-Operating Revenues (Expenses)		
Federal grants	433,625	433,625
Donated commodities	25,333	25,333
State grants	65,176	65,176
Other income	1,210	1,210
Fund transfers	<u>(16,804)</u>	<u>(16,804)</u>
Total non-operating revenues	<u>508,540</u>	<u>508,540</u>
Net income (loss)	9,588	9,588
Net assets, July 1, 2011	<u>76,987</u>	<u>76,987</u>
Net assets, June 30, 2012	<u>\$ 86,575</u>	<u>\$ 86,575</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

Cash Flows From Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 70,600
Cash paid to/for	
Employees	(234,965)
Supplies	(235,596)
Other activities	<u>(10,469)</u>
Net cash provided (used) by operating activities	<u>(410,430)</u>
Cash Flows from NonCapital Financing Activities:	
Cash received for operating grants	<u>423,059</u>
Net decrease in cash and cash equivalents	12,629
Balances, beginning of year	<u>46,672</u>
Balances, end of year	<u><u>\$ 59,301</u></u>
Reconciliation of operating income (loss) to net cash	
provided (used) by operating activities	
Net income (loss)	\$ (498,952)
Adjustments to reconcile operating income to net cash	
provided (used) by operating activities	
Depreciation	2,437
On-behalf revenues	60,148
Donated commodities used in operations	25,333
Change in assets and liabilities	
Inventory	<u>604</u>
Net cash provided (used) by operating activities	<u><u>\$ (410,430)</u></u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 25,333</u>
On Behalf payments	<u><u>\$ 60,148</u></u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2012**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 88,556
Total assets	<u>\$ 88,556</u>
Liabilities	
Accounts payable	\$ 411
Due to student groups	<u>88,145</u>
Total liabilities	<u>88,556</u>
Net Assets Held in Trust	<u>\$ -</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

1. Summary of Significant Accounting Policies and Description of Funds:

Reporting Entity:

The Caverna Board of Education, a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Caverna Independent School District. The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Caverna Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of these organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Management has evaluated subsequent events through October 5, 2012, the date which the financial statements were available to be issued.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Caverna Independent School District Finance Corporation - On August 30, 1989, the Caverna Board of Education resolved to authorize the establishment of the Caverna Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Caverna Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation:

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the district, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The district-wide statements are prepared using the economic resources measurement focus. This focus is the same approach used in the preparation of the propriety fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The district allocates certain indirect costs to be included in the program expenses reported for individual functions and activities in the District-Wide Statement of Activities.

In the District-wide Financial Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Propriety funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types:

- a. The General Fund is the primary operating fund of the District and is always classified as a major fund. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. Reservations have been placed on the fund balance for accrued sick leave and other contingencies.
- b. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund to always be classified as a major fund.

I. Governmental Fund Types, Continued:

- c. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

d. Debt Service Fund:

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Fund):

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund. The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with other contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds):

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.



**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

*District-Wide Financial Statements*

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt- Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted Net Assets- Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

*Fund Financial Statements*

Under GASB Statement 54, fund balance is separated into five categories, as follows:

- Nonspendable-Permanently nonspendable by decree of the donor, such as endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.
- Restricted-Legally restricted under federal or state law, bond authority, or grantor contract
- Committed-Commitments passed by the Board
- Assigned-Funds assigned to management priority including issued encumbrances
- Unassigned-Funds available for future operations

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing reports, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2011-2012 school year have been classified as deferred revenues. Likewise, all awards requested as a result of the 2010-2011 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount.

Grants and entitlements received before the eligibility requirements are met are recognized as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in government funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 60 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited onto the General Fund and then transferred to the appropriate fund.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued:

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.635 per \$100 valuation for real property, \$.56 per \$100 valuation for business personal property and \$.627 per \$100 valuation for motor vehicles.

Capital Assets

General capital assets are those specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of the net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalized threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an assets life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivable and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave and has no maximum accumulation.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued:

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Proprietary Fund. Inventory consists of donated and purchased foods held for resale and are expensed when used. Purchased food is valued at cost (first-in, first-out method) and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Continued:

Investments

The private purpose trust funds record investments at their quoted market price. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair market value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

On-Behalf Payments

During the year ended June 30, 2012, the Kentucky Division of Finance made payments on behalf of Caverna Independent School District in amount of \$1,355,785. These payments were paid for fringe benefits for the District personnel. These payments have been included in both revenue and expenditures on the District's financial statements for the year ended June 30, 2012.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Donated Commodities

The fair value of donated commodities received during the year is reported in the Proprietary Fund Statement of Revenues, Expenditures, and Changes in Net Assets as an expense and as donated commodities revenue (nonoperating revenue).

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

1. Summary of Significant Accounting Policies, Concluded:

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

2. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents:

At year-end, the carrying amount of the District's cash and cash equivalents was \$1,695,302. Of the total cash balance, \$340,871 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Kentucky Banking Center	<u>\$ 1,933,411</u>	<u>\$ 1,695,302</u>

Breakdown per financial statements:

Governmental funds	\$ 1,547,445
Proprietary funds	59,301
Agency funds	88,556
	<u>\$ 1,695,302</u>

All deposits are in financial institutions and brokerage accounts. The District's bank deposits are categorized below to give an indication of the custodial credit risk assumed by the District at June 30, 2012.

Category 1 – Insured by FDIC or collateralized with securities held by the District or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no writer or approved collateral agent.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

3. Cash and Cash Equivalents, Concluded:

	Category			Total Bank	Carrying
	One	Two	Three	Balance	Amount
Deposits with Financial Institutions	\$ 340,871	\$ 1,592,540	\$ -	\$ 1,933,411	\$ 1,695,302

Interest Rate Risk

The District invests in certificates of deposits with numerous financial institutions. The District purchases and sells their investments as interest rate fluctuate in order to manage their exposure to fair value losses arising from increasing interest rates.

Currently, Certificates of Deposits maturity dates range from 30 days to 90 days with an interest rate of .74%.

4. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
<b><u>Governmental Activities:</u></b>				
Capital Assets, not being Depreciated:				
Land	\$ 121,636	\$ -	\$ -	\$ 121,636
Total Capital, not being Depreciated	\$ 121,636	\$ -	\$ -	\$ 121,636
Land and improvements	\$ 779,870	\$ -	\$ -	\$ 779,870
Buildings and improvements	6,404,170	-	-	6,404,170
Technology equipment	642,593	188,224	(96,248)	734,569
Vehicles	882,164	89,139	-	971,303
General equipment	217,029	300	(2,080)	215,249
Total at historical cost	8,925,826	277,663	(98,328)	9,105,161
Less: accumulated depreciation for:				
Land and improvements	(690,775)	(14,343)	-	(705,118)
Buildings and improvements	(3,027,611)	(161,304)	-	(3,188,915)
Technology	(436,811)	(85,415)	86,129	(436,097)
Vehicles	(576,214)	(62,786)	-	(639,000)
General equipment	(162,984)	(6,851)	1,662	(168,173)
Total accumulated depreciation	(4,894,395)	(330,699)	87,791	(5,137,303)
Governmental Activities Capital Assets - Net	\$ 4,153,067	\$ (53,036)	\$ (10,537)	\$ 4,089,494
<b><u>Business - Type Activities:</u></b>				
Food service and equipment	\$ 80,386	\$ -	\$ (2,895)	\$ 77,491
Technology equipment	5,705	-	-	5,705
Total at historical cost	86,091	-	(2,895)	83,196
Less: accumulated depreciation for:				
Food service and equipment	(66,275)	(2,437)	2,895	(65,817)
Technology equipment	(5,705)	-	-	(5,705)
Total accumulated depreciation	(71,980)	(2,437)	2,895	(71,522)
Business-Type Activities Capital Assets - Net	\$ 14,111	\$ (2,437)	\$ -	\$ 11,674

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

5. Bonded Debt and Lease Obligations:

The original amount of each issue, the issue date, and interest rates, and maturity are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Date</u>
Issue of 2009R	\$ 85,000	1.00% - 2.00%	12/1/2012
Issue of 2002 (Refunding of 1992)	\$ 1,170,000	1.30% - 3.50%	12/1/2012
Issue of 2004	\$ 1,715,000	1.75% - 4.90%	6/1/2024
Issue of 2012	\$ 1,185,000	1.10% - 6.25%	6/1/2024

The District, through the General Fund Facility Support Program (FSPK) Fund, and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

Long-term debt activities for the year ended June 30, 2012, are as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount Due</u> <u>Within One Year</u>
Series 2009R	\$ 57,000	\$ -	\$ (28,000)	\$ 29,000	\$ 29,000
Series 2002	240,000	-	(120,000)	120,000	120,000
Series 2004	1,260,000	-	(1,105,000)	155,000	75,000
Series 2012	-	1,185,000	(15,000)	1,170,000	20,000
	<u>\$ 1,557,000</u>	<u>\$ 1,185,000</u>	<u>\$ (1,268,000)</u>	<u>\$ 1,474,000</u>	<u>\$ 244,000</u>



**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

5. Bonded Debt and Lease Obligations, Continued:

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2012-13	\$ 244,000	\$ 32,338	\$ 30,257	\$ 246,081
2013-14	100,000	26,722	30,257	96,465
2014-15	105,000	23,302	30,257	98,045
2015-16	105,000	22,146	30,257	96,889
2016-17	105,000	20,572	30,257	95,315
2017-18	110,000	18,996	30,256	98,740
2018-19	110,000	16,796	30,255	96,541
2019-20	115,000	14,486	30,255	99,231
2020-21	115,000	12,072	30,257	96,815
2021-22	120,000	9,312	30,257	99,055
2022-23	120,000	6,432	30,256	96,176
2023-24	125,000	3,282	30,256	98,026
	<u>\$ 1,474,000</u>	<u>\$ 206,456</u>	<u>\$ 363,077</u>	<u>\$ 1,317,379</u>

6. Capital Lease Payable:

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2012</u>
Buses	<u>\$ 214,629</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2021:

<u>Year Ended June 30</u>	<u>Capital Lease Payable</u>
2013	\$ 54,176
2014	51,714
2015	43,580
2016	35,318
2017	26,304
Thereafter	<u>46,667</u>
Total minimum lease payments	257,759
Less: Amount representing interest	<u>(27,281)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 230,478</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

7. Commitments Under Noncapitalized Leases:

Commitments under operating lease agreements for office equipment provide for minimum future rental payments as of June 30, 2012 as follows:

Year ending June 30:	
2012	\$ 13,359
Total Minimum Rentals	\$ 13,359

8. Retirement Plans:

The Caverna Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained online at <http://ktrs.ky.gov> or by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KTRS. Members are required to contribute 9.855% of their salaries to KTRS. Effective July 1, 2010 new members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries to those hired before July 1, 2008 and 14.105% of salaries to those hired after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. KRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 16.00% of the employee's total compensation subject to contribution. Effective September 1, 2008 new members were required to contribute 6% of their salaries.

The District's total payroll for the year was \$5,067,756. The payroll for employees covered under KTRS was \$3,978,528 and for CERS was \$1,089,228. For the year ended June 30, 2012, the Commonwealth contributed \$550,950 for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 were \$115,063 which represents those employees covered by federal programs and the 5% insurance contributions.

The contribution requirement for CERS for the year ended June 30, 2012, was \$248,778 which consisted of \$195,148 from the District and \$53,630 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**

**June 30, 2012**

**8. Retirement Plans, Continued:**

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the Plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	CERS as of June 30, 2011	CERS as of June 30, 2010 (In Thousands)	CERS as of June 30, 2009
Assets available for benefits, at fair value	\$ 7,409,157	\$ 7,296,322	\$ 7,402,278
Pension benefit obligation	<u>11,777,126</u>	<u>11,131,174</u>	<u>10,491,358</u>
(Under funded)/ over funded pension benefit obligations	<u>\$ (4,367,969)</u>	<u>\$ (3,834,852)</u>	<u>\$ (3,089,080)</u>

The following table presents the last three years of the total of all employer contributions to the Plan and the District's contributions for the year ending June 30:

**Total Plan Contributions - CERS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
2011	\$ 432,414,052	\$ 435,404,150	100.69%
2010	\$ 453,055,709	\$ 382,839,930	84.50%
2009	\$ 425,830,683	\$ 310,669,790	72.96%

**District's Contributions - CERS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
2012	\$ 248,778	\$ 248,778	100.00%
2011	\$ 225,277	\$ 225,277	100.00%
2010	\$ 206,654	\$ 206,654	100.00%

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

8. Retirement Plans, Concluded:

	KTRS as of June 30, 2011	KTRS as of June 30, 2010 (In Thousands)	KTRS as of June 30, 2009
Assets available for benefits, at fair value	\$ 14,908,100	\$ 14,851,300	\$ 14,885,981
Pension benefit obligation	<u>25,968,700</u>	<u>24,344,300</u>	<u>23,400,426</u>
(Under funded)/ over funded pension benefit obligations	<u>\$ (11,060,600)</u>	<u>\$ (9,493,000)</u>	<u>\$ (8,514,445)</u>

**Total Plan Contributions - KTRS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2011	\$ 678,740,000	\$ 1,038,472,200	153.00%
June 30, 2010	\$ 633,900,000	\$ 481,764,000	76.00%
June 30, 2009	\$ 600,300,000	\$ 444,222,000	74.00%

**District's Contributions - KTRS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2012	\$ 550,950	\$ 550,950	100.00%
June 30, 2011	\$ 423,477	\$ 423,477	100.00%
June 30, 2010	\$ 370,995	\$ 370,995	100.00%

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2012 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. Total employee contributions to these plans were \$38,485 for the year. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2012**

9. Medical Insurance Plan:

Plan description – In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through KTRS Medicare Eligible Health Plan.

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, 1.5% of the gross annual payroll of all members before July 1, 2008 is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from State appropriation. Members joining the Plan after July 1, 2008 contribute an additional 1% to the medical insurance fund. Also, the premiums collected from retirees as described in the Plan description and investment interest help meet the medical expenses of the Plan.

10. Contingencies:

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor's may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional burden to comply with a change.

11. Insurance and Related Activities:

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include Worker's Compensation Insurance.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONCLUDED**  
**June 30, 2012**

12. Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. Deficit Operating Balances:

There are no funds of the District that currently have a deficit fund balance.

14. COBRA:

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

15. Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Food Service	General	Indirect Cost	\$ 16,804
Operating	Capital Outlay	Special Revenue	Matching	\$ 13,196
Operating	Capital Outlay	General	Repairs	\$ 52,785
Operating	Building Fund	Bond Fund	Debt Service	\$ 207,853
Operating	General	Bond Fund	Debt Service	\$ 29,576

## SUPPLEMENTAL INFORMATION

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,513,714	\$ 1,513,714	\$ 1,649,446	\$ 135,732
Motor vehicles	90,000	90,000	123,686	33,686
Other	113,000	113,000	112,095	(905)
Earnings on investments	8,000	8,000	11,442	3,442
Other local revenues	5,464	5,464	32,431	26,967
Intergovernmental-state	2,937,126	2,937,126	4,333,012	1,395,886
Intergovernmental-indirect federal	-	-	-	-
Intergovernmental-direct federal	-	-	4,752	4,752
Total revenues	<u>4,667,304</u>	<u>4,667,304</u>	<u>6,266,864</u>	<u>1,599,560</u>
Expenditures:				
Instruction	2,784,660	2,784,660	3,548,704	(764,044)
Support services:				
Student	160,058	160,058	197,502	(37,444)
Instructional staff	201,522	201,522	266,797	(65,275)
District administration	998,508	998,508	497,654	500,854
School administration	461,182	461,182	543,985	(82,803)
Business	51,205	51,205	103,471	(52,266)
Plant operations and maintenance	651,850	651,850	486,849	165,001
Student transportation	522,170	522,170	487,137	35,033
Community service activities	<u>3,826</u>	<u>3,826</u>	<u>13,070</u>	<u>(9,244)</u>
Total expenditures	<u>5,834,981</u>	<u>5,834,981</u>	<u>6,145,169</u>	<u>(310,188)</u>
Excess (deficit) of revenues over expenditures	<u>(1,167,677)</u>	<u>(1,167,677)</u>	<u>121,695</u>	<u>1,289,372</u>
Other financing sources (uses):				
Proceeds from sale of fixed assets	-	-	2,561	2,561
Operating transfers in	87,611	87,611	69,589	(18,022)
Operating transfers out	<u>(80,511)</u>	<u>(80,511)</u>	<u>(29,576)</u>	<u>50,935</u>
Total other financing sources (uses)	<u>7,100</u>	<u>7,100</u>	<u>42,574</u>	<u>35,474</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(1,160,577)</u>	<u>(1,160,577)</u>	<u>164,269</u>	<u>1,324,846</u>
Fund balance, July 1, 2011	<u>1,160,577</u>	<u>1,160,577</u>	<u>1,196,977</u>	<u>36,400</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,361,246</u>	<u>\$ 1,361,246</u>



**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicles	-	-	-	-
Other	-	-	-	-
Earnings on investments	-	-	-	-
Other local revenues	1,749	1,749	3,920	2,171
Intergovernmental-state	349,069	349,069	357,546	8,477
Intergovernmental-indirect federal	1,343,071	1,343,071	1,524,282	181,211
Intergovernmental-direct federal	-	-	-	-
Total revenues	<u>1,693,889</u>	<u>1,693,889</u>	<u>1,885,748</u>	<u>191,859</u>
Expenditures:				
Instruction	1,295,409	1,295,409	1,485,179	(189,770)
Support services:				
Student	36,452	36,452	37,048	(596)
Instructional staff	240,689	240,689	210,090	30,599
District administration	-	-	-	-
School administration	54,881	54,881	86,499	(31,618)
Business	-	-	-	-
Plant operations and maintenance	-	-	-	-
Student transportation	-	-	-	-
Community service activities	79,654	79,654	80,128	(474)
Total expenditures	<u>1,707,085</u>	<u>1,707,085</u>	<u>1,898,944</u>	<u>(191,859)</u>
Excess (deficit) of revenues over expenditures	<u>(13,196)</u>	<u>(13,196)</u>	<u>(13,196)</u>	<u>-</u>
Other financing sources (uses):				
Proceeds from sale of fixed assets	-	-	-	-
Operating transfers in	13,196	13,196	13,196	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>13,196</u>	<u>13,196</u>	<u>13,196</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2011	-	-	-	-
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2012**

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Total Nonmajor Governmental Funds
Assets and resources:				
Cash and cash equivalents	\$ 97,118	\$ 72,827	\$ -	\$ 169,945
Inventory	-	-	-	-
Accounts receivable:				
Taxes-current	-	-	-	-
Taxes-delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Intergovernmental-State	-	-	-	-
Intergovernmental-Indirect Federal	-	-	-	-
Intergovernmental-Direct Federal	-	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
Interest receivable	-	-	-	-
Investments	-	-	-	-
Furniture and equipment, net	-	-	-	-
Total Assets and Resources	<u>\$ 97,118</u>	<u>\$ 72,827</u>	<u>\$ -</u>	<u>\$ 169,945</u>
Liabilities and fund balance:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and related expenses	-	-	-	-
Current portion of accumulated sick le	-	-	-	-
Deferred revenues	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable:	-	-	-	-
Restricted:				
Capital Projects	-	30,572	-	30,572
Debt Service	97,118	42,255	-	139,373
Committed:	-	-	-	-
Accrued Sick Leave	-	-	-	-
Other Contingency	-	-	-	-
Assigned:	-	-	-	-
Unassigned:	-	-	-	-
Total fund balances	<u>97,118</u>	<u>72,827</u>	<u>-</u>	<u>169,945</u>
Total Liabilities and Fund Balances	<u>\$ 97,118</u>	<u>\$ 72,827</u>	<u>\$ -</u>	<u>\$ 169,945</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES -- NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ -	\$ 148,577	\$ -	\$ 148,577
Motor vehicles	-	-	-	-
Utilities	-	-	-	-
Other	-	-	-	-
Tuition and fees	-	-	-	-
Earnings on investments	-	-	-	-
Other local revenues	-	-	-	-
Intergovernmental-Intermediate	-	-	-	-
Intergovernmental-State	65,981	89,848	-	155,829
Total revenues	<u>65,981</u>	<u>238,425</u>	<u>-</u>	<u>304,406</u>
Expenditures:				
Instruction	-	-	-	-
Support services:				
Student	-	-	-	-
Instructional staff	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business	-	-	-	-
Plant operations and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Facilities and construction	-	-	-	-
Other	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	<u>65,981</u>	<u>238,425</u>	<u>-</u>	<u>304,406</u>
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-
Realized gains and losses and changes in market value	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(65,981)	(207,853)	-	(273,834)
Total other financing sources (uses)	<u>(65,981)</u>	<u>(207,853)</u>	<u>-</u>	<u>(273,834)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	30,572	-	30,572
Fund balance, July 1, 2011	97,118	42,255	-	139,373
Fund balance, June 30, 2012	<u>\$ 97,118</u>	<u>\$ 72,827</u>	<u>\$ -</u>	<u>\$ 169,945</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**CAVERNA INDEPENDENT HIGH SCHOOL ACTIVITY FUNDS**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES**  
**For the Year Ended June 30, 2012**

	Cash		(1)		Receipts		(1)	Disbursements		(1)		Balance		Accounts		Accounts		Due to	
	Balance	July 1, 2011										June 30, 2012		Receivable	Payable	Receivable	Payable	Student Groups	June 30, 2012
	\$		\$	\$	8,486	\$	8,417	\$	1,684	\$		\$	\$					\$	
GENERAL	1,615		59	81					109									1,684	
FLOWER	131		308	631					695									109	
LOCKERS	358		61	412					161									695	
MISCELLANEOUS	358		61	589					12									161	
FACULTY AND STAFF	428		1,340	1,340														12	
SOFTBALL CONCESSIONS	1,373		2,959	1,996					2,336										
BASEBALL CONCESSIONS	-		6,512	6,512														2,336	
SCHOOL CONCESSIONS	-		133	133															
BASKETBALL CONCESSIONS	-		86	-					86										
TOURNAMENT CONCESSIONS	-		3	3														86	
ACADEMIC TEAM	945		59	569					435										
CLASS OF 2011	-		4,592	4,207					385									435	
CLASS OF 2012	-		18	-					996									385	
CLASS OF 2013	978		60	-					441									996	
ART CLUB	381		20	-					374									441	
ART DEPARTMENT	354		-	-					12									374	
STUDENT YMCA	12		187	186					1									12	
CHEMISTRY	-		2,328	1,701					627									1	
CULTURE CLIMATE COMMITTEE	-		520	195					325									627	
BCA	9,600		72,090	73,346					8,344									325	
BUDGET COMM FUNDRAISERS	30		746	637					139									8,344	
ATHLETICS	1,597		3,134	4,598					133									139	
BAND	561		-	-					561									133	
CHEERLEADERS	996		-	-					996									561	
BETA CLUB	44		42	309					-									996	
BELA	309		-	-					42									-	
FCA	1		-	-					1									42	
FHA (FCCLA)	143		-	143					-									1	
FOREIGN LANGUAGE	1		716	677					40									-	
TSA	1		24	121					264									40	
PEP CLUB	361		2,344	3,295					2,777									264	
SADD	3,728		-	1					-									2,777	
YEARBOOK	1		-	3					-									-	
FCS	3		591	1,115					927									-	
INDUSTRIAL ARTS	1,451		-	-					126									927	
FFA	126		-	-					12									126	
AP BIOLOGY	12		-	-					1									12	
ANATOMY CLASS	1		150	139					11									1	
FIELD TRIPS	-		-	-					-									11	
ENERGY GRANT	-		-	-					-									-	
	<u>\$</u>	<u>25,912</u>	<u>\$</u>	<u>108,828</u>	<u>\$</u>	<u>111,687</u>	<u>\$</u>	<u>23,053</u>	<u>\$</u>	<u>23,053</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>23,053</u>	<u>\$</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT  
CAVERNA MIDDLE SCHOOL AND CAVERNA ELEMENTARY SCHOOL ACTIVITY FUNDS  
ALL FUNDS COMBINED  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
For the Year Ended June 30, 2012

	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
CAVERNA MIDDLE SCHOOL	\$ 27,788	\$ 34,093	\$ 26,133	\$ 35,748	\$ -	\$ 20	\$ 35,728
CAVERNA ELEMENTARY (1)	28,629	45,332	44,206	29,755	-	391	29,364
TOTALS	\$ 56,417	\$ 79,425	\$ 70,339	\$ 65,503	\$ -	\$ 411	\$ 65,092

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
FAMILY RESOURCE CENTER  
2012 Project  
For the Year Ended June 30, 2012**

Beginning cash, July 1, 2011		\$ 2,704
Receipts:		
United Way	1,126	
Donations	2,842	
Grant from state	<u>79,653</u>	
Total receipts		83,621
Disbursements:		
Salaries and benefits	60,161	
Registration fees and other dues	260	
Program supplies	4,071	
Postage and shipping	440	
Student activities	12,666	
Travel	1,502	
Food	627	
Award and grants	743	
Advertising	1,181	
Other	<u>187</u>	
Total disbursements		<u>81,838</u>
Cash balance, June 30, 2012		4,487
Less deferred revenue		<u>(4,487)</u>
Fund balance, June 30, 2012		<u>\$ -</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>			
Passed-through State Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 12	\$ 280,372
National School Breakfast Program	10.553	7760005 12	116,768
National School Summer Meal Program	10.559	7690024-12	10,769
Total Child Nutrition Cluster:			407,909
Other Programs			
Commodity Supplemental Food Program	10.565	7750002-12	25,333
Fresh Fruit and Vegetable Program	10.582	7720012-11/12	25,716
Total Other Programs			51,049
Total U.S. Department of Agriculture:			<u>\$ 458,958</u>
<u>U.S. Department of Education:</u>			
Passed-through State Department of Education:			
Title I, Part A Cluster			
2011 Project	84.010	3100002-11	\$ 13,968
2012 Project	84.010	3100002-12	340,600
2011 Project D	84.010	3100002-11	9,992
2012 Project D	84.010	3100002-11	29,832
2011 School Improvement	84.389	3100002-11	29,065
Total Title I, Part A Cluster:			423,457
Special Education Cluster (IDEA)			
2012 Project-Preschool	84.173	3800002-12	23,245
2011 Project - Special Education	84.027	3810002-11	13,694
2012 Project - Special Education	84.027	3810002-12	208,444
Idea B-Preschool- Stimulus - ARRA	84.391	4810002-09	1,125
Total Special Education Cluster (IDEA)			246,508
School Improvement Grant Cluster			
2011 Title 1 School Improvement - ARRA	84.388	4100302-09	106,646
2012 Title 1 School Improvement - ARRA	84.388	4100302-09	346,245
Total School Improvement Grant Cluster			452,891
Other Programs			
Migrant - 2011	84.011	3110002-11	2,007
Migrant - 2012	84.011	3110002-12	51,325
			53,332
Rural and Low Income-11	84.358	3140002-11	16,154
			16,154
Perkins, Title I Part C	84.048	4621032-09	496
Perkins, Title I Part C	84.048	4621132-10	685
Vocational Education	84.048	4621232-11	14,170
			15,351
2012 Improving Teacher Quality	84.367	3230002-11	56,994
			56,994
2009 21st Century	84.287	3400001-09	1,000
2011 21st Century	84.287	3400001-10	113,336
			114,336
Education Jobs	84.410	EJOB00-10	153,850
			153,850
Total Other Programs			410,017
Total U.S. Department of Education			<u>\$ 1,532,873</u>
Total Federal Financial Assistance			<u>\$ 1,991,831</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2012**

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Caverna Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Food Distribution:

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.



**CAVERNA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2012**

**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial Statements noted?

\_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

\_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>
<b>Passed Through U.S. Department of Agriculture:</b>	
Child Nutrition:	
National School Lunch	10.555
National School Breakfast	10.553
National School Summer Meal	10.559
<b>Passed Through Kentucky Department of Education:</b>	
School Improvement Grant Cluster	
School Improvement Recovery Act	84.388

Dollar threshold used to distinguish  
Between type A and type B programs:    \$300,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONCLUDED  
For the Year Ended June 30, 2012**

II. FINANCIAL STATEMENTS FINDINGS

A. No matters were reported.

III. FEDERAL AWARD FINDING AND QUESTIONED COSTS

A. No matters were reported.

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended June 30, 2012**

No prior year audit findings.

# CAMPBELL, MYERS, & RUTLEDGE, PLLC

## Certified Public Accountants

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Education  
Caverna Independent School District  
Horse Cave – Cave City, Kentucky 42127

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent School District, as of and for the year ended June 30, 2012, which collectively comprise the Caverna Independent School District's basic financial statements and have issued our report thereon dated October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for the School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Contract.

#### Internal Control Over Financial Reporting

Management of Caverna Independent School District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Caverna Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Caverna Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Caverna Independent School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Caverna Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

We noted certain matters that we reported to management of Caverna Independent School District, in a separate letter dated October 5, 2012.

This report is intended solely for the information and use of Kentucky State Committee for School District Audits, the members of the Board of Education of Caverna Independent School District, the Kentucky Department of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Campbell, Myers & Rutledge, PLLC*

Glasgow, Kentucky  
October 5, 2012

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education  
Caverna Independent School District  
Horse Cave – Cave City, Kentucky 42127

#### Compliance

We have audited Caverna Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Caverna Independent School District's major federal programs for the year ended June 30, 2012. Caverna Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Caverna Independent School District's management. Our responsibility is to express an opinion on Caverna Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the *Kentucky State Committee for the School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Contract*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caverna Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Caverna Independent School District's compliance with those requirements.

In our opinion, Caverna Independent School District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control over Compliance

Management of Caverna Independent School District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Caverna Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Caverna Independent School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Caverna Independent School District, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Campbell, Myers & Rutledge, PLLC*

Glasgow, Kentucky  
October 5, 2012

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In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent School District as of and for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered Caverna Independent School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Caverna Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Caverna Independent School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, Kentucky Department of Education, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants

October 5, 2012



